THE CURRENCY ACT OF 1900.

THE act of March 13, 1900, "to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, and for other purposes," opens a new stage in the monetary history of the United States. For the first time since the Civil War an attempt is made to "fix and define,"— to enter on a policy deliberately chosen. It remains to be seen, it is true, whether this attempt will be successful. The legislation of the present year may prove no more definitive than the series of compromises that have preceded it. Yet some things have been accomplished; and in any case the act of 1900 will not only remain on the statute-book for years,— very likely for many years,— but will be the starting-point for any legislation in the future. The changes which it makes and the system which it establishes therefore deserve attentive consideration.

The train of events which caused the currency of the United States to be for so many years in an unsettled condition has been sketched elsewhere in these columns by a master's hand.* It will suffice here to recapitulate once more what are the constituent elements in the amorphous mass of money with which Congress has been compelled to deal. It includes: (1) the United States notes, "greenbacks," "legal tenders," dating from the Civil War, and fixed, after a long and checkered legislative history, at the precise sum which happened to be outstanding in May, 1878,—$346,681,016. (2) The silver currency,— silver dollars, and certificates representing them,— dating from the act of February, 1878, under which successive instalments were put forth, and were

* *The Safety of the Legal Tender Paper*, by Charles F. Dunbar, in this Journal, vol. xi. p. 323 (April, 1897).

further added to, in cumbrous fashion, by the act of 1890. The amount of these outstanding at the beginning of the present year (January 1, 1900) was 476.2 millions,— 395 millions in the form of silver certificates, 81.2 in the form of dollars. (3) The Treasury notes of 1890, issued in that year in purchase of silver, precisely like the United States notes in being legal tender paper, but, unlike them, subject to gradual conversion into silver currency (dollars and certificates) under the peculiar provisions of the act of 1890, as amended in 1898.* The amount of these outstanding on January 1 was 89 millions. (4) The national bank notes, payable necessarily in any form of legal tender money which the banks may choose to use, — whether gold coin, silver coin, or legal tender notes,— and thus depending for their strength on the weakest part in the chain of the several currency issues put forth by the government. Their amount at the opening of the year was 246.3 millions.

Evidently, the effect of this system, or lack of system, was to make the maintenance of the gold basis for the whole volume dependent on the maintenance of that basis for two classes of legal tender notes. The bank-notes stand or fall with the legal tender money in which they are payable. The silver currency presents a simple though quantitatively imposing example of the so-called "limping standard." These dollars and certificates, though intrinsically worth less than half their face value, yet maintain that face value so long as their volume is safely below the total which finds ready use in the community at the level of prices brought about by the conditions of international trade. The legal tender notes, if they stood alone, might conceivably be in an analogous condition of "limping" steadiness. But, standing as they do side by side with a very large quantity of other fiduciary money, it has been more than a possibility that redemption should

* See the notes in this Journal, vol. x. p. 350 (April, 1896) and vol. xiii. p. 113 (October, 1898).

be actually called for, and, failing redemption, the rest of the currency would go up and down according to the degree of consequent depreciation of these notes.

The convertibility of the legal tender paper at the United States Treasury, which thus is the corner-stone of the existing currency structure, has been made insecure since the resumption of specie payments by two sets of causes. On the one hand, there has never been explicit legislation providing for redemption in gold. From the Public Credit Act of 1869 and the Resumption Act of 1875 down to the present time the word "coin" has been steadily used in the statutes; and, however clear it was that "coin" meant gold, especially before 1878, and however obviously the honor of the country was pledged for payment in gold, the strict letter of the law permitted the Treasury at its discretion to pay either in gold or in silver coin. Quite as serious, in the turn which events happened to take, was the second cause of instability,— the failure to provide any separate funds by which the Treasury could meet a demand for redemption. Its ability to do so rested on its general resources, and on the maintenance of a steady supply of specie derived either from loans or from an excess of receipts over expenditure. Any fiscal drain on its resources, whether from diminished revenues or enlarged expenditures, threatened the stock of gold which had been accumulated at the time of resumption in 1879, but which had never been set aside specifically for the purposes of continuing redemption.

This curious confusion between the original fiscal duties of the independent Treasury and the monetary duties newly imposed on it since the Civil War was made the more dangerous by the great irregularities alike in the receipts and the expenditures of the federal government. The receipts have been derived always largely, and for many years preponderantly, from customs duties, whose yield fluctuates rapidly and unpredictably with the varia-

tions in the industrial activity of the country. The expenditures, controlled by the separate committees of the House and Senate which frame the appropriation bills, vary according to the political complications of the moment, the temper of leading men, the pressure from one or another section of the community for public disbursements. The Treasury must confront the possibility, nay, the probability, of alternate periods of plethora and emptiness; and its ability to maintain the redemption of legal tender notes was thus inevitably subject to great dangers and uncertainties,— dangers of whose reality the near approach to collapse in the years 1894–96 gave impressive evidence.

This indefensible state of things was the result, not of premeditated policy, but of the complete absence of such a policy. It was the outcome of a succession of compromises and makeshifts; and it was allowed to stand for so long a period mainly because of the even balance of the contending sections in the community, which demanded, the one a gold basis, the other a silver basis, for the whole mass of the currency. In 1896 the abrupt identification of the Democratic party with the silver section caused the Republican party, which for a generation had tried to face both ways, to identify itself, in its own despite, with the gold section. Its victory at the polls in that year, and the control of both Houses of Congress which it secured,— not at once, but with the opening of the present Congress, — led finally to the enactment of the new Currency Act. Strong pressure from the business community, through the movement initiated by the Indianapolis Monetary Convention of 1897–98, was needed to bring the leaders of the dominant party to undertake any single-minded and well-defined policy. Even with pressure so strong and with conditions so opportune the temporizing habit still showed its strong hold, especially with certain wary senators, veterans in the art of evading an issue. Hence the act,

while it goes farther than Congress has gone for many a day, is far from being a well-rounded and consistent measure, as will appear from an examination of its provisions in detail.

On one subject, indeed, the language is explicit. The first section provides that the gold dollar shall be "the standard unit of value," and makes it the duty of the Secretary of the Treasury to maintain all forms of money "at a parity" with this standard. This, to be sure, is no more than a declaration, whose efficacy depends on the nature of the legislation provided for upholding the standard. Much more important, as a legislative command framed in precise terms, is the provision with which the second section opens: that United States notes and Treasury notes, when presented for redemption, shall be redeemed in gold. Under the terms of previous legislation the Secretary of the Treasury had the right to redeem, at his discretion, in either kind of coin. The act of 1890 had indeed contained a phrase which might be construed as identical with that in the opening section of this year's measure,— that it is "the established policy of the United States to maintain the two metals on a parity upon the present legal ratio." But the discretion then left with the Secretary of the Treasury as to the mode in which the "established policy" was to be carried out made redemption in silver an obvious possibility. Hereafter no Secretary will have discretion on this point. The legal tender paper is redeemable in gold, and in gold only.

The bill passed by the House had extended the policy of unambiguous promise still further by providing that all interest-bearing obligations of the United States should be payable in gold. This pledge, which would seem to be a natural corollary from the other, was dropped by the Senate. In later sections of the act, inserted by the Senate, it is prescribed that certain new bonds (of which more will be said presently) shall be payable, principal

and interest, in gold; but the bonds now outstanding are left, even more clearly than before, payable under the strict letter of the law in either metal. No respectable reason can be adduced for treating differently the two classes of debts. If there was before a doubt as to the nature of the obligation on the non-interest bearing debt, that doubt attached equally to the interest-bearing debt and equally needed to be dissipated. It is not probable that the ambiguity thus retained will prove of serious consequence; though, in view of all the varied possibilities of the future, it is by no means impossible that it should become so. Certainly, its deliberate retention as to the bonds now outstanding does not redound to the country's honor.

Proposals have sometimes been made (thus, in the plan of legislation devised by the monetary commission of the Indianapolis Convention) for the redemption in gold of the silver currency also,— a change which would make this, like the legal tender paper, a direct promise to pay in gold. Neither the House bill nor the Senate bill provided for such redemption, and the act leaves the silver to stand on its own short leg as before. Its legal tender quality remains as it had been; that is, the coined dollars are legal tender without limit, while the certificates are receivable for public dues and available for national banks as part of their lawful reserves. In this regard the wise policy was followed. The silver currency is better left by itself, presenting its own problems and to be dealt with on its own merits. For the present at least, and perhaps indefinitely, it may be left without danger; and, at all events, it should not be allowed to complicate and confuse the paper-money question by outright promise to redeem the silver money in the other metal.

The crucial question in the pending legislation was the precise provision for the promised redemption in gold of

the legal tender paper. Assuming that such paper was to remain, whether temporarily or indefinitely, a constituent part of the circulating medium, the natural mode of insuring its unfailing exchange for gold was the establishment of an issue department which should automatically give gold for notes, and therefore hold the notes unless gold should again be deposited against their reissue, thus completely divorcing this part of the Treasury from its admittedly harmful connection with the receipt and disbursement of current revenues. The Issue Department of the Bank of England presented a familiar example of an independent and automatic bureau of this kind,—an example perhaps not likely to be cited by those of chauvinistic spirit, but none the less suggestive as showing the possibilities of stability under such a system. Something of the sort is now established in the United States; yet with such complications, and with so much of discretionary power at the Treasury, as to leave, after all, little impression of sharply defined separation, and, what is much more important, to establish no habit or tradition of a self-acting monetary system.

By section 4 there are established in the office of the Treasurer * two divisions, to be known as the division of issue and the division of redemption; and to these are transferred "all records and accounts relating to the issue and redemption of United States notes, gold certificates, silver certificates, and currency certificates." So much is merely a book-keeping change, serving to set forth more clearly the various resources and obligations of the Treasury. But it is further provided that among these accounts shall figure the "reserve fund" for the redemption of the legal tender paper, which, like the other funds

* The Treasurer is the custodian of the cash of the government; the Secretary of the Treasury, the administrative head of the whole department.

To illustrate the new regulations, I have printed in the Appendix two statements of the Treasury's condition, for March 13 and 14,—the last day under the old régime and the first under the new.

represented in the several accounts, is to be "held as a trust fund." That reserve fund is created and specifically defined in section two, where the declaration of trust again appears in the provision that the fund "shall be used for such redemption purposes only." The Secretary of the Treasury is to constitute it by setting aside 150 million of gold coin and bullion,— not, indeed, setting it aside physically, but charging so much of the gold he has on hand to the reserve fund. Here we have something like an issue department. We might expect that thereafter the situation would be simple, the new department, or account, serving to hold fast any notes redeemed, and reissuing them, if at all, only against a later redeposit of gold. But this simple and straightforward mechanism is not adopted. Instead, we have a series of elaborate regulations, which once again interlace the new account with the other Treasury operations. The further provisions of this section of the act (section 2) call for constant transfers to and fro between the new reserve fund and the general fund, anxiously avoid any accumulation or putting aside of redeemed notes, virtually compel their reinjection into the currency, and, finally, look to a real replenishment of the gold supply from the sale of bonds only as a last and extreme resort.

The details of these provisions deserve careful examination. "Whenever and as often" as notes are redeemed, it is made the duty of the Secretary of the Treasury to resort to three ways of using these redeemed notes "to restore and maintain such reserve fund." (1) He must exchange the notes for any gold coin in the "general fund." This general fund is simply the cash which happens to be on hand in the course of the Treasury's ordinary fiscal operations. If the cash is in excess of current needs, and if the surplus on hand exists in the form of gold coin (as at the present juncture happens to be), a resource for strengthening the reserve fund is here available. But the

resort to this device clearly causes the surplus in the general fund to take the form of notes rather than of gold; and, since a permanent and continuing surplus is more than improbable, we may be sure that sooner or later the transferred notes will be paid out. Under what we may suppose to be normal conditions, when revenues simply balance expenditures, the operation must cause the redeemed notes to be returned to circulation with but a short interval of temporary housing in the general fund. (2) The second use which the Secretary of the Treasury must make of redeemed notes even more obviously and unfailingly returns them to circulation: "by accepting deposits of gold coin at the Treasury or at any sub-treasury in exchange for the notes so redeemed." Such deposits have been habitually made for years, where paper is desired for convenience of use by persons having gold on their hands; and a continuance of this practice is looked to as a means of replenishing the reserve fund. (3) Finally, there is a last method, which on its face suggests an ostrich-like process of dodging. The Secretary is to procure gold "by the use of said notes in accordance with section 3700 of the Revised Statutes." That section authorizes the "purchase" by the Secretary of coin with notes, "at such rates and upon such terms as he may deem most advantageous." It was a re-enactment, at the time of the Revision (1873–74), when specie was still at a premium, of an act passed in March, 1862, within a month after the first issue of legal tender notes. On its face the continued resort to any operation of this kind, in an act passed long after the resumption of specie payments and designed to strengthen resumption beyond peradventure, seems simply absurd, the Treasury being supposed to buy gold with notes at the very time when it is called on to pay these same notes in gold.*

* This provision, and indeed the enumeration of all three of these compulsory exchange operations, was inserted in the Senate bill. The House bill simply provided that the Secretary *might* transfer to the reserve fund any

These provisions, easily misunderstood by the uninitiated, and on their face inconsistent with a system of automatic redemption, are probably the outcome of a variety of causes. The accident of a full and overflowing Treasury played its part. Had there not happened to be a very large "general fund" at the time when Congress was considering the measure, the interchanges with this other side of the Treasury would have suggested themselves less temptingly. More influential, probably, was the unquestionable fact that frequently and, indeed, commonly, in prosperous and easy-going times, paper has been presented for redemption not from any distrust of the security of the paper or from inability to obtain gold elsewhere, but from the simple convenience of exchange at the well-equipped counters of the Treasury; while the reverse process, of presenting gold for similar convenience of exchange into paper, is equally common. Habits of this sort are the result of the long persistence of a régime of paper for all every-day transactions,—a régime created before the Civil War by the failure to prohibit bank-notes of small denominations, and maintained necessarily during the long period of suspension of specie payments. It is often assumed that Americans have a rooted dislike to handling gold coin; and this state of habit has been

available resources in the general fund. Senator Allison, who seems to have been among those responsible for its insertion,—see the remarks of Senator Aldrich in the *Congressional Record*, p. 2456,—thus explained the possible use of the third device:—

"The object of that is to give the Secretary of the Treasury a little latitude in times of distress or panic, so that, if need be, if he find gold in Chicago or in San Francisco, and not gold precisely where he needs it, he can exchange these greenbacks by paying the express charges of the greenbacks to San Francisco or to Chicago and the express charges of the gold in return, which, you will see, is a small premium. It is a small premium, but no Secretary of the Treasury will abuse this power. However, it is an important power that he shall hold in his hands, in order that he may be able in critical times to pay the necessary expenses in the nature of a small premium rather than to use the power given to him to sell bonds." *Congressional Record*, p. 1838.

Surely, a strange proceeding: a great nation, in time of "distress or panic," is supposed to scrape together gold by forcing out its own discredited promises to pay gold.

adduced as a ground for the system of interchanges established, or rather confirmed, by the new act. The strong probability is that the ways of Americans and the shape of their purses would adapt themselves to gold coin as easily as do those of other civilized countries; and, in any case, if it were thought inadvisable to experiment towards such a change, the familiar device of issuing gold certificates against deposits of gold would have met every possible need of "convenience." But the sacro-sanct quality which attaches to the greenbacks in some quarters prevented this simple and consistent step from being taken. The act expressly provides that "United States notes, when redeemed in accordance with the provisions of this section, *shall be reissued*, but shall be held in the reserve fund until exchanged for gold, as herein provided." In other words, they are to be treated, as they have been treated ever since the resumption of specie payments, not as a debt to be paid and disposed of, but as a form of money, inflexible in quantity, which under the new legislation may be temporarily in the reserve fund or in the general fund of the Treasury, but is sooner or later to play its part once more in the circulating medium.

All the devices described in the preceding paragraphs are compulsory on the Secretary of the Treasury until 50 millions of the original 150 millions of gold are gone from the reserve fund. So long as gold can be scraped up elsewhere, by transfer from the general fund or by exchange with the outside world, the redeemed notes are to be held in the reserve fund only for a moment. When these devices are no longer available, the notes begin to be impounded. The reserve fund may never exceed 150 millions in all, and, as will be pointed out in a moment, the notes held in it may not exceed 50 millions; but within these limits it may consist partly of gold and partly of redeemed notes.

The stage of energetic replenishment of the reserve

fund is not reached until the gold in it shall fall below 100 millions. Then the Secretary of the Treasury must sell bonds,* and thereby procure gold. But the gold thus got is not to be turned automatically into the reserve fund. It "shall first be covered into the general fund of the Treasury, and then exchanged for an equal amount of notes redeemed." The effect of this requirement must be to cause the reserve fund, which previously would have consisted of 100 millions of gold and 50 millions of paper, to be suddenly made up again of 150 millions of gold, the paper being transferred as suddenly to the general fund, and there held again as cash. Thereafter these notes may be used in exchange for gold (once more !) or to purchase bonds or "for any lawful purpose." The only restriction is that "they shall not be used to meet deficiencies in the current revenues." This proviso is expected to prevent the reappearance of the "endless chain." So long as there is a "deficiency in the current revenues," any notes transferred from the reserve fund into the general fund in exchange for bond-bought gold are to be impounded in the general fund, and there held as "cash in the Treasury."

Quite apart from the question whether Congress is likely to leave redeemed notes in the general fund in case of a prolonged deficiency,— of which something will be said presently,— there is here a curious assumption that a deficiency in the revenue is something that discloses itself immediately and unmistakably. Obviously, however, it is a matter for judgment, if not for guess, whether current revenues are now redundant or insufficient, depending on contingent and uncertain expenses as well as on those accrued, and on future estimated revenues as well as on those already received. Let the experience of 1873 be recalled. Then Secretary Richard-

* The bonds to be used for redemption purposes are different from those authorized by later sections of the act. They may bear interest up to 3 per cent., and are redeemable at pleasure after one year. Like the other new bonds, they are payable, principal and interest, in gold.

son, at the height of the great crisis, poured out, and in vain at that, a quantity of notes he had on hand, in what is now dubbed the "general fund" of the Treasury; thereafter found that his revenues fell off, and failed to replenish his fund; and finally resorted (with doubtful legal authority) to an issue of still other notes, supposed to have been redeemed, paid off, and non existent, thus meeting the real deficit which resulted unexpectedly, though not unnaturally, from his dissipation of a supposedly available "general fund." * The present restriction against using the redeemed notes "to meet deficiencies in the current revenues" virtually serves only to put a discretionary power in the hands of the Secretary, and depends for its effect on the wisdom, personal and political prestige, and ability to withstand inevitable pressure, possessed by the person who fills that trying office for the time being.

Surveying the new Treasury system, as a whole, we need not hesitate to admit that, so long as this legislation stands, it is strong enough, assuring, even though by a cumbrous machinery, the maintenance of the gold standard. Much, indeed, is left to the discretion of the Secretary of the Treasury. Contingencies may be imagined in which the elaborate mechanism would be put to severe trial, and the government and the business community involved in difficulties calling for the highest qualities in that responsible post. But, notwithstanding the juggling which is obligatory on the Treasury in the early stages of any drain, the means for meeting it manfully are available and, indeed, in the end obligatory.

In a democratic community, however, legislative details are much less decisive than established traditions and principles. So long as this legislation stands, the currency will be securely on the gold basis; but is it likely to stand?

Looking at the statement of the Treasury's condition as

* See the reference to this operation on p. 229 of Professor Dunbar's paper as cited above; and compare the *Report on the Finances*, 1873, pp. xi–xv.

it is framed in conformity with the new statute, the first item we find, standing conspicuously at the head, is the "reserve fund" of gold coin and bullion to the amount of 150 millions. Here is a huge asset, available for any Congress which finds it troublesome to pay as it goes. If we had a strong tradition that the reserve fund was inviolable, we might feel confident that it would not be touched. If it were the property of an independent corporation,— such as are the great Banks of England, Germany, and France, and such as were the two former Banks of the United States,— it would be unmistakeably a part of the monetary system alone, and in no danger of being regarded as a fiscal resource. But, as it stands, a Treasury asset merely set aside for a specific purpose by legislation subject to amendment by the appropriation bills of any session, can we feel confident that it will remain intact? Evidently, the establishment of a tradition of inviolability is impeded by those constant transfers and swaps between reserve fund and general fund which the act makes obligatory. Gold and notes go from one to the other interchangeably. Sometimes the reserve fund itself will be made up partly of gold, partly of notes. For years, too, the fund may seem idle and useless, serving no apparent purpose, and locking up so much of available cash. No doubt in prosperous times it may be left there with indifference. But let the years of depression and of straightened revenues come,— as come they must,— and we may be sure that a strong party in the national legislature will be disposed to draw on this convenient resource. The friction of our cumbrous legislative machinery may give the present arrangement, like any existing statute, a certain stability from the mere difficulty of substituting anything else; but this is a poor safeguard against continuing temptation. The new system contains hardly less elements of weakness than did the Resumption Act itself. Its permanent effectiveness depends not

on settled principle, but on the fragile safeguard of unceasing vigilance against the attacks which it invites.

But more: not only does the reserve fund in itself invite attack as an easy fiscal resource, but the working of the general fund under the independent Treasury system habituates the community to demands on the public purse for relief in times of stress. The government, acting as custodian for its own cash, inevitably absorbs, when its revenue is redundant, a large part of the circulating medium. The excess so stored in its coffers must be ejected when it passes the bounds of endurance: hence the spasmodic purchases of bonds, deposits in national banks, search for possible new ways of expenditure, and all the devices that are suggested in times of plethora for getting the cash out of the Treasury. One such device, presently to be considered, is notable in this very statute. Hence, too, the habit in the financial community of looking to Washington for relief in times not only of serious crisis, but of commercial stress or even of "tight money" in the speculative market. Frequently enough the independent Treasury system is in reality, if not the prime cause, at least a cause contributory to distress; and, naturally, it is called on for relief in every case, even though other and deeper causes are at work, and the remedy of pouring out its cash is likely to be of no avail. True, under the legislation now enacted, nothing in the reserve fund of the Treasury may be paid out, even in the extremest crisis, by a Secretary who conforms scrupulously to the requirements of law: only what he has in the general fund, large or small, is at his disposal. But are these, once more, the conditions promising for stability? Is the line between trust fund and general fund — at best obscured by the act itself — likely to be always clearly distinguished by the business public and by the legislators?

Demands for relief at the hands of the Treasury, thus engendered by the habits of half a century, must be ex-

pected not only in the brief weeks of a crisis, but in the longer periods of depression and stagnation that follow. There will always be a strong party in our community that looks in such periods to plentiful money as the remedy. A great mass of cash, perhaps all gold, perhaps partly gold and paper, stored up in the public vaults, must appear to a multitude of persons an easy means of vivifying industry, of starting the wheels of prosperity, and what-not enticing phrases will be current. There is an obvious distinction between a call for the additional cash which sometimes is really needed in the course of a financial crisis, and more often is simply supposed to be needed, and a call for more money as the sovereign panacea in bad times. But the every-day man and the every-day legislator will be easily confused between them; and in any Congress some transient wave of popular uneasiness or discontent — especially when re-enforced by the fiscal pressure likely to be felt at just such periods — may undermine the structure which is now set up.

To sum up: the conspicuous amassing of a great hoard of cash, likely to be year after year of no apparent utility; the difficulty of establishing with the general public and among the ever-shifting legislators the traditions of an inviolable fund; the constant transfers from reserve fund to general fund and *vice versa*, still further obscuring the principle of an independent and automatic reserve; the habit of looking to the government for relief, engendered by the system of an independent treasury; the certainty of a perennial crop of agitators and legislators who will urge a plentiful outpouring of money as the one remedy in times of depression; the constant resort to compromise in settling disputed questions, inevitable under Congressional and Parliamentary government, and conspicuously illustrated by the history of currency legislation for the last thirty-five years,— these are undeniable menaces to the permanent maintenance of the new system. It lacks

above all things the simplicity and single-mindedness necessary for the planting of a tradition, for the settlement of a principle. What its future may be remains to be seen. In fair weather, it will go its way easily enough; but how will it withstand the shocks of storm?

We may turn now to some of the other provisions of the act.

The Treasury notes of 1890, the luckless and unbefriended progeny of the union between silverites and protectionists in that year, are at last definitively disposed of. On their face they are legal tender notes, yet in origin they are based on silver purchases, and they have always been difficult to classify, standing somewhere between the paper money proper and the silver currency. It is now provided that they shall be relegated to the latter class once for all. The war revenue act of 1898 had already enacted that all the silver bullion purchased by the government under the act of 1890 should be converted gradually into silver dollars, at the rate of 1½ million dollars per month. It is now required, in section 5 of the new act, that, as these notes are received by the Treasury in any way,— whether in payment of taxes or by way of presentation for redemption,— they shall be cancelled to the amount of 1½ millions a month, silver certificates taking their place to that extent. Gradually they will thus disappear, and the only direct obligations against the reserve fund will be the United States notes proper,— the still outstanding issues of the Civil War. The silver bullion held in the Treasury from the purchases of 1890 will suffice to coin more silver dollars than the Treasury notes outstanding from that operation; and, if all of it were coined into dollars, the total of the silver currency in the form of dollars and certificates would be increased by more than the amount of Treasury notes withdrawn. But section 8 gives the Secretary of the Treasury authority, at his dis-

cretion, to convert some of this bullion into subsidiary silver coins, cancelling Treasury notes for an equivalent amount; and by so much their conversion into dollars and certificates is lessened.

As to the national banking system, some noteworthy changes are made; yet, after all, none that alter the main outlines of the system as it stands, or are likely to bring any far-reaching changes in its actual working. Banks are allowed to issue notes up to the par value instead of 90 per cent. of the bonds deposited; the proviso being retained, however, that notes shall not exceed the market value of the bonds. They are also allowed to issue notes to the full amount of their paid-in capital instead of 90 per cent., as hitherto,—a privilege of which it is highly improbable that any appreciable number of banks will avail themselves. The tax on circulation is reduced from 1 per cent. a year to ½ of 1 per cent., for such banks as deposit the new 2 per cent. bonds authorized by the act. Banks with a capital of not less than $25,000 are permitted in places having a population of three thousand or less. A provision in the rechartering act of 1882, by which a bank had been prohibited from issuing new notes during a period of six months after any withdrawal of circulation on its part, is repealed. This restriction has made the national bank issues, inelastic at best, still more unresponsive to the needs of business. It never had any solid justification, and is well rid of.

The reduction in the tax on circulation, it will be noted, is conditional on the deposit of the particular bonds newly authorized in the act, bearing 2 per cent. interest, redeemable at pleasure thirty years after issue, and payable, principal and interest, in gold. The floating of such bonds in exchange for certain existing issues bearing a higher rate of interest is made possible by authorizing the payment to their holders of a cash bonus.* This refunding

* Not all the outstanding bonds may be exchanged for the new per cents. The exchangeable issues are noted below. The amounts outstanding on Feb-

operation serves a double purpose. It gets rid of some of the accumulated cash in the "general fund" of the Treasury, and, indeed, could not have been undertaken but for the presence of a heavy surplus. It also eases the conditions under which national bank notes may be issued, by enabling banks to secure bonds for circulation without locking up additional capital in the premium which was commanded by the securities to be exchanged. On the other hand, it has the disadvantage of depriving the government of the right of redeeming its debt for a period of thirty years. Hereafter the reduction of the debt, so far as these bonds are concerned,— and, indeed, for virtually all the bonds,— must proceed by purchase in the market; a process which not only involves bargaining and possible speculative manipulation, but causes an artificially high price of the securities which the government finds itself compelled to buy.

It would be idle to try to predict in detail the effects of these changes in the national banking system. Some immediate increase in circulation there will certainly be from the permission to issue up to the par (or market) value of bonds. Additional issues may be tempted by the easier conditions in other directions. Some new banks may be organized, with the minimum capital of $25,000, in small places. But it is safe to say that the changes, whether their quantitative outcome be a little greater or less, will not radically change the national bank situation nor enable the system to adjust itself smoothly and ade-

ruary 1, 1900, and the sums which their holders are entitled to receive on exchange, are also given.

	Outstanding February 1 (millions).	*Premium payable for each $1,000 exchanged.*	*Total premium payable if all outstanding bonds were exchanged (millions).*
1. Four per cents., redeemable after 1907, (Issued in 1877-79.)	545.3	$111.68	63.7
2. Five per cents., redeemable after 1904, (Issued in 1894.)	95.0	110.07	9.6
3. Three per cents., redeemable after 1908, (Issued in 1898.)	198.8	105.68	11.3

quately to the needs of the community. The requirement of the purchase and deposit of a 2 per cent. security will continue to prevent any considerable gain in circulation. That same requirement causes the operation of putting out circulation to depend still, not on the opportunities of the individual bank in its expanding or contracting business operations, but on the accident of apparent profit under the current price of bonds. The maintenance of the present mechanism for redemption, virtually at the Treasury alone, makes the contraction of excessive issues — if such there should be — conform but sluggishly and uncertainly to the general changes in the industrial activity of the community. In fine, there is still no real elasticity, whether for expansion or contraction. Nor is it to be expected that the privilege of establishing banks with the lowered minimum of capital in small places will be followed by any permeation of the rural districts with banking accommodations under the national system. The conditions of issue are still so hard that no more than a sporadic growth is to be looked for. And, so far as there will prove to be such a growth, it may be attended with serious dangers to the prestige of the national banking system as a whole. In the crisis of 1893, nothing was more striking than the wholesale failures of small State banks scattered through the central and Western States, — failures due to the inherent difficulty of securing good management and a proper distribution of risks with institutions conducted on so narrow a scale. Collapses of the same sort must be feared among small banks, whether State or national, when another crash comes.

Some changes are made in the denominations in which the several forms of money may be put forth. Silver certificates may be issued hereafter only in denominations of ten dollars and less (except for a leeway of 10 per cent. of the total volume, which the Secretary of the Treasury has discretion to print in larger denominations). United

States notes, on the other hand, are to be in denominations of ten dollars and upwards. National bank notes, as to which the previous restriction had been that none should be for less than five dollars, may hereafter be of that denomination, for any one bank, only up to one-third of its issues. They also must therefore be preponderantly for ten dollars and more. Gold certificates may be issued in denominations of twenty dollars and upwards, with the proviso that at least one-fourth in amount shall be for fifty dollars or less. The design of these regulations is to reduce the silver currency, not indeed to the position of a subsidiary currency, but to an analogous one,— that of an over-valued specie, limited in quantity, and circulating in comparatively small denominations. Such has been in the main its place hitherto, and will be more certainly and completely its place hereafter.

No great importance attaches to this confirmation and extension of an existing practice. The competition of the silver currency with the bank-notes, in the channels of circulation to which bank issues are chiefly confined, must indeed become somewhat more severe, especially in view of the swelling of the silver currency from the amalgamation with it of the bulk of the Treasury notes. But, as long as paper of one sort or another is the medium for the transactions of every-day exchange, it is of no great moment which form of it is used most largely in the smaller denominations. Countries whose paper money consists solely of bank-notes restrict the denominations of these with the design of compelling the use in every-day transactions of specie, and of securing by this permeation a broad and solid basis for the whole monetary system. But where, as in the United States under existing conditions, another form of fiduciary money fills these channels up at once, nothing substantial is gained by such changes as have now been made. If, indeed, the actual circulation of gold coin, say in the form of five-dollar pieces, were brought about,

something would be gained, both in the way of real solidity and in counteracting a widely diffused notion that gold is mysteriously scarce. But the great volume of the silver currency which is now definitively relegated to these channels makes such a change, welcome as it would be, highly improbable.

Taken as a whole, the act makes a step forward. It establishes the gold standard *eo nomine*,— a recognition of existing facts, and a declaration of principle for the future, in refreshing contrast with the evasive twaddle about "parity" so common during the last two decades. It reorganizes the Treasury Department in conformity with the requirements of the situation as created by the Resumption Act, with deliberate preparation for the redemption on demand of the obligations whose payment was undertaken by that earlier measure. It treats the national banks not as grasping and dangerous corporations, but as useful institutions deserving the fostering care of the legislature. On the other hand, the reorganization of the Treasury is on lines which invite attack and make resistance difficult; and the changes in banking legislation are not such as to make possible any considerable expansion of the national system or to enable it to render the community the full service of which it is capable. The act is likely to stand for some time. It may be that its salient feature — the establishment of government-issued convertible paper — will prove to be a permanent element in our currency system. But it is probable that further legislation, in the direction of greater security or of less, will be undertaken on the legal tender paper; and it is well-nigh certain that eventually Congress will have to consider once more the further remodelling of the national banking system.

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